

Testimony of
Eileen Mehta
for the
Committee for Purchase From People Who Are Blind
or Severely Disabled

Public Hearings Relating to Governance and
Executive Compensation

January 19, 2006

Red River Conference Room
(7th Floor, Room 752)
Earl Cabell Federal Office Building
1100 Commerce Street
Dallas, TX 75242

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I am Eileen Mehta, Counsel, for Goodwill Industries of South Florida, Inc ("GISFL"). Thank you for the opportunity to comment on the proposed plan to reissue a proposed rule as stated in the *Federal Register* of December 16, 2005. This rule would affect the operation of GISFL, a non-profit, faith-based organization, which operates under the laws of the State of Florida as a 501©3 codified by the IRS.

GISFL serves a population of individuals with severe disabilities and we are proud of our accomplishment. GISFL fulfills its mission by employing a human service model that has been developed over many years. This model makes use of vocational rehabilitation services in combination with job training and employment services to assist people with severe disabilities overcome their barriers to employment until the time they are ready for transition into the competitive world and become self-supporting citizens. It is a comprehensive system composed of the following sections: evaluation, case management/counseling, educational, medical, psychological, social development, activities center and adjustment training, vocational training, work services and job placement. Because of this approach, GISFL has successfully helped thousands of people with severe disabilities. A copy of our model is in the provided packet together with our 2004 Annual Report. I encourage you to review it for a much more comprehensive explanation of our work.

In 2005, GISFL operated with \$62.5 million in operating revenues Which was comprised of

- \$3.6 million (5.8%) from public funds, a combination of government fees for services, United Way Support and public contributions.
- \$58.9 million (94.2%) from GISFL entrepreneurial activities.

Our receipts from the Javits-Wagner-O'Day Program ("JWOD") consisted of \$25.5 million (40.8%) of our total 2005 revenues. GISFL does not generate any business income unrelated to its 501(C)(3) status.

In 2005, GISFL served a total of 3,620 people with severe disabilities of which 2,302 individuals graduated and left the program. Of these individuals, 1,443 were placed in competitive community employment outside Goodwill, 859 pursued other personal goals that were previously impossible, and the remaining persons continued receiving services in our system.

In 2005 Goodwill South Florida program created \$29.4 million in new earnings for people with disabilities that had a profound economic impact on them and on the community. This amount included \$11.8 million of wages and benefits paid to people with severe disabilities working for Goodwill, many of them employed on JWOD contracts, and \$17.9 million estimated wages and benefits earned by the 1,443 people placed in jobs during the first year of competitive employment.

This \$29.4 million in new earnings, created by GISFL, for people with severe disabilities is a very important contribution to American society. It represents a phenomenal return of \$8.32 per each dollar (of the \$3.6 million in public funds) received. These earnings will also create \$6.7 million in new payroll taxes (federal, social security, unemployment, state, social security, and Medicare), all from people with severe disabilities who were previously unemployed.

Goodwill Industries of South Florida serves one of the poorest, most culturally diverse populations with severe disabilities in America. Ninety-seven percent [97%] are below the poverty level when they enter our program; seventy-one per cent [71%] are minorities and have acculturation difficulties because they are foreign born. With a large immigration population, acculturation presents a large barrier to competitive employment. Perhaps the best statement of this problem comes from the National Council of Disability, "[P]eople with a dual minority status" . . . (immigrant and severely disabled) "face the greatest barrier to employment. . . ." Our diversity is reflected in our day-to-day business interaction. We serve over forty different nationalities and communicate in three "official" languages. The disabilities of this population range from psychiatric to physical challenges to developmental delay. In the South Florida area, over 120,000 people with severe disabilities are unemployed. GISFL is very

proud of its accomplishments on behalf of a population with such desperate needs for its services and the JWOD Program. Unfortunately, it is obvious that GISFL serves only a small part of those individuals, who are living in extreme poverty. Therefore, we have established an internal goal to double the number of people served by 2010.

We owe much of our success to the JWOD program. In addition to providing job opportunities, the experience gained with JWOD has enabled us to develop many other opportunities for people with severe disabilities. Due to the expansion of our commercial customer base, in 2005 JWOD **represented** only **40%** of our revenues and in our 2006 budget, JWOD contract dollars will be reduced to **36%**. Four times, NISH has awarded the Entrepreneurial Award to our Goodwill for our use of the JWOD experience to develop other opportunities, which include insertion of preprinted ads in all *Miami Herald* newspapers, cleaning of the police property room, and vehicular cleaning for 500 buses per night.

Goodwill Industries of South Florida has received much recognition for our accomplishments. This past year, GISFL received the Department of Commerce's Excellence in Community and Faith-based Social Entrepreneurship Award for work employing people with disabilities in the South Florida community. The Defense Supply Center Philadelphia (DSCP) recognized GISFL for its support of Operation Enduring Freedom and Operation Iraqi Freedom. In addition, Defense Contract Management Command presented to Goodwill Industries of South Florida the Blue Ribbon Contractor award. GISFL has received numerous other recognitions and awards over the last 15 years for federal government and commercial contracting.

Perhaps our best recognition came in 2004 when GISFL received the Department of Commerce's Excellence in Community and Faith-based Social Entrepreneurship Award, for work employing people with disabilities in the South Florida community. We have received numerous

other recognitions and awards over the last 15 years of federal government and commercial contracting.

GISFL is **committed** to upholding the highest professional standards. Although unusual in the non-profit arena, we hold three accreditations which include Commission on Accreditation of Rehabilitation (CARF), Delmarva Foundation, and the Council on Occupational Education. Additionally, GISFL is ISO 9001:2000 registered in the area of design and manufacture of sewn goods, flags, and accessories and is in the third year of surveillance.

Over the years, Goodwill South Florida has experienced many positive results from our accreditation, including networking with representatives from our industry, recommendations for process improvements, and an increased knowledge based on innovation in the vocational rehabilitation community. Accreditation has provided important standards to ensure that each person with severe disabilities receives services under the guidance of qualified professionals, follows an individualized program customized to help a person develop his/her maximum human potential and to optimize his/her opportunities for competitive community employment and independent living. It should be noted that the GISFL human services model is in full compliance with CARF and that CARF accreditation incorporates many standards that help ensure Non-profit Agencies ("NPAs") become compliant with **Sarbanes-Oxley** provisions.

On the questions of accreditation, GISFL is in agreement that no Committee governance rules should override local, state, or other federal requirements. GISFL strongly agrees that the Committee should recognize accreditation as evidence of a nonprofit agency adherence to good fiscal and governance practices, and that the Committee should make a list of acceptable third-party organizations and their accrediting standards. However, GISFL requests that CARF be on that list because of its many years of experience, its fine reputation as an independent entity, its acceptance by numerous non-profits organizations across the nation, which are already reviewed by this accreditation company. We do believe that accreditation is a necessary requirement to ensure that NPAs are made aware of and are meeting national standards for vocational rehabilitation.

GISFL has carried out its work with JWOD contracts for over **15** years. GISFL's service contract division is extensive. Due to the work we initially started under JWOD, our federal, state, local and commercial grounds keeping, bus cleaning, food service and janitorial/custodial services now employ over 250 people with disabilities. Approximately, 6.3 million square feet of space is cleaned daily; a minimum of 350,000 meals are served per year; 800 acres are maintained; and over 9,000 buses are cleaned monthly.

A fine example of GISFL's services came during the past hurricane season. GISFL has responsibility for emergency response for federal, state and local government facilities. Three times this year, GISFL responded to South Florida's hurricane emergencies for power failure, flood damage, and wind damage abatement. Customers include four military installations (two for the U.S. Coast Guard, one for the U.S. Air Force, and one for the U.S. Navy), the General Service Administration, Miami-Dade Police Headquarters, City of Miami and Florida State Government. Although GISFL facilities sustained damage and losses at its own 44 locations (two locations are still closed), GISFL was in all 119 customer locations within 24 hours after these hurricanes, providing the quality services its customers expect and receive.

GISFL's sewn products division produces items such as international flags, banners, U.S. Interment Flags, emblems/insignias, fleece jackets, *fleece* overalls, blue jeans, aprons, U.S. Air Force garrison caps, dress women's pants, combat trousers, conference totes and more. All sewn products are 100% cut, fused, sewn, trimmed, embroidered and packaged by over 600 GI employees in five Miami locations. Customers include small businesses, large businesses, the State of Florida, and the federal government.

GISFL mentions its work so that you can see how extensive its services and products are under JWOD. By demonstrating the commitment to our principles of stewardship, public accountability, and transparency, GISFL has maintained management and general cost at 4.6% of revenues, while the industry norm is over 14%. This fact alone makes Goodwill one of the most cost-effective non-profit organizations in America. In addition, our board adopted seven new policies to voluntarily comply voluntarily with the provisions of the Sarbanes-Oxley Act.

These policies enabled the board to ensure that accurate and complete financial and management internal **control systems** were in place.

Having a highly diverse and engaged board is another attribute of a healthy nonprofit. At Goodwill Industries of South Florida, CEO compensation is reviewed and established by a Committee of the Board of Directors, which rotates the chair periodically. Additionally, over a five-year period, four different directors have served as the board chair. To comply further with the highest standards, the Board's Executive Committee created a standing committee on compensation to operate in full compliance with Section 4958 of the Internal Service Code. GISFL's CEO compensation is based on comparative data gathered from other comparable organizations by board directors qualified in human resources compensation. Compensation decisions have been fully deliberated by at least eight directors. Therefore, GISFL recommends that the Committee permit executive compensation regulations be established according to Internal revenue Service's regulations, which have all the appropriate guidelines and penalties to ensure the protection of the public trust. We propose that state, county, or local government non-profit agencies participating in the JWOD Program should be exempt from Committee regulations in the areas of CEO compensation and governance. These entities have numerous requirements and regulatory statutes that mandate close scrutiny by public entities. However, these agencies should continue to be subject to all other JWOD Program regulations inclusive of performance requirements, severely disabled ratios and fair market price.

Regarding services, fair market prices are tied to prices from the commercial market, and this Committee has already capped General and Administrative (G & A) plus all overhead at a rate of 9.5% as calculated on the NPA's subtotal of all costs for a given contract.

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Regarding products, JWOD contract prices are also tied to the commercial market as a result of actual incurred costs on all materials and components. We are not the exclusive manufacturer on the majority of our JWOD products. Thus, even under the JWOD Program competition influences price. The Committee's regulation requires that the prices on these contracts cannot be more than an established percentage above existing, concurrent award price. On all of our JWOD product contracts, we have actually reduced the contribution to General and Administrative (G & A) plus all overhead since Florida Minimum wage has experienced two increases over the federal minimum wage. We have not received a price increase from the federal government due to these state mandated wage increases.

Finally, JWOD contracts are fixed price contracts which differ significantly from other contract vehicles such as fixed price plus incentive fee, cost plus or time and material contracts. In other words, excessive salaries or bonuses cannot be added to the pricing calculation because of the fixed price nature of the contract. Therefore, we see no correlation between the fair market price structure and CEO compensation.

Thank you for this opportunity to discuss these highly relevant issues. Please know that the JWOD Program is an instrument in changing the lives of thousands of people with severe disabilities in Southern Florida. This year after experiencing three hurricanes, the strong support of the Committee and the financial assistance from NISH have ensured that the JWOD Program will continue to be a major contributor to work opportunities for people with severe disabilities in Southern Florida.

Thank you for all of your considerations.

**Addendum to the
Testimony of
Eileen Mehta
for the
Committee for Purchase From People Who Are Blind
or Severely Disabled
Public Hearings Relating to Governance and
Executive Compensation
January 31, 2006**

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Elleen Mehta, Counsel, for Goodwill Industries of South Florida, Inc ("GISFL") testified and provided written testimony on January 19, 2006. Due to the questioning at the hearing on subminimum wages, we would like to addendum our testimony for the inclusion of the following comments:

Thank you for the opportunity to amend our comments and address the issue of subminimum wage. We are highly supportive of raising individuals with severe disabilities out of the clutches of poverty and providing them an opportunity to gain important work and living skills that will significantly improve the quality of lives for themselves and their families. As our community is in one of the largest pockets of poverty in the nation, we provide a wide array of program services and are very sympathetic to the need for a financial response. However, an answer must be found first to allow payment of individuals above their earning power. We see at least two possible answers:

1. We strongly recommend that the U.S. Congress dedicates **long-term** funded subsidies for the differential between what the employee earns (less than 100% productivity) and the federal minimum wage. Or,
2. Federal customers will increase contract values to pay the prescribed differential between what the employee earns (less than 100% productivity) and the federal minimum wage.

In our organization, more than 370 employees with the most profound, severe disabilities are at subminimum wage. The estimated cost of this additional, annual funding would be at least \$2.6 million dollars. Unfortunately, like other nonprofit agencies and competitive businesses, Goodwill Industries of South Florida would eventually become insolvent if we paid minimum wages for employees with productivity less than 100% without any dedicated outside funding.

Additionally, in our state, Florida, the state minimum wage is \$6.40 per hour. Without employing one more person with severe disabilities, this \$2.6 million differential would continue to grow as we experience state minimum wage increases at least once per year. Without an outside funding source, we would no longer be able to employ the most severely disabled of our employees. Truly, we feel that employing the most severely disabled individuals is exactly what the Javits-Wagner-O'Day Program has exemplified. If Committee decides that labor performed on JWOD contracts cannot be based on productivity that results in an earned subminimum wage, please present us an answer for an outside funding source to pay the differential between what is earned and the minimum wage. This will allow us to maintain our program services and increase their standard of living. **Thank you** for all of your considerations.